

Message Text

CONFIDENTIAL

PAGE 01 BUDAPE 01758 01 OF 02 021346Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 AGRE-00 DOE-15 SOE-02 PA-01 /122 W
-----130020 021407Z /72

R 021246Z MAY 78
FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC 1353
INFO AMEMBASSY BELGRADE
AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
USMISSION USNATO
USMISSION GENEVA
AMCONSUL MUNICH

C O N F I D E N T I A L SECTION 1 OF 2 BUDAPEST 1758

E.O.11652: GDS
TAGS: ECON, EEWT, HU
SUBJECT: PREPARATION FOR HUNGARIAN FISCAL REFORM CONTINUES

REF: BUDAPEST 1714 (NOTAL)

1. SUMMARY. A KNOWLEDGEABLE HUNGARIAN FOREIGN TRADE MINISTRY OFFICIAL HAS GIVEN THE EMBASSY SOME ADDITIONAL INSIGHT INTO ECONOMIC REFORM PROPOSALS DISCUSSED BY THE HUNGARIAN SOCIALIST WORKERS PARTY CENTRAL COMMITTEE APRIL 19-20. A FUNDAMENTAL REFORM OF THE TAX SYSTEM, WHICH WOULD REPLACE THE PRESENT COMPLEX AND UNEVEN SYSTEM OF TAXES ON ENTERPRISES WITH A UNIFORM TURNOVER TAX, HAS BEEN PROPOSED BUT NOT FINALLY APPROVED. THE OFFICIAL HINTED AT POSSIBLE OPPOSITION
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BUDAPE 01758 01 OF 02 021346Z

TO REFORM PROPOSALS. END SUMMARY

2. JANOS NYERGES, MINISTRY OF FOREIGN TRADE OFFICE DIRECTOR AND TRADE NEGOTIATOR, TOLD EMBASSY ECONOFF APRIL 27 THAT APRIL 19-20 CENTRAL COMMITTEE MEETING TOOK NO FINAL DECISION ON MAJOR FISCAL AND PRICE REFORM, BUT CONFIRMED THAT ACTIVE DISCUSSIONS OF SUCH A REFORM

CONTINUE IN THE GOH AND HSWP. THE BASIC PRINCIPLE OF A REFORM, ACCORDING TO NYERGES, WOULD BE TO REPLACE THE PRESENT TAX SYSTEM, WHICH CONSISTS OF A BEWILDERING VARIETY OF TAXES AND SUBSIDIES -- MOST TAXES BEING CLOSER TO A CORPORATE TYPE TAX IN THEIR APPLICATION -- WITH A UNIFORM SYSTEM OF TURNOVER TAXES ALONG LINES OF EC'S VALUE ADDED TAX. NYERGES POINTED OUT THAT 30 TO 40 PERCENT OF PRESENT PRODUCER PRICES REFLECT TAXES. THE GENERAL PRODUCERS PRICE LEVEL IS HIGHER THAN THE CONSUMER PRICE LEVEL BECAUSE OF HIGH CONSUMER SUBSIDIES ON MANY PRODUCTS. BECAUSE OF VARIETY OF SPECIAL SUBSIDIES AND TAX EXEMPTIONS, IT IS ALMOST IMPOSSIBLE TO JUDGE THE REAL COSTS OF PRODUCTS. THIS DISTORTS ECONOMIC DECISIONS AND HAS BEEN A SERIOUS IMPEDIMENT TO THE RATIONALIZATION OF THE PRODUCTION STRUCTURE, WHICH IS A MAJOR ECONOMIC GOAL. A TURNOVER TAX SYSTEM WOULD END THE ARTIFICIAL SEPARATION OF PRODUCER AND CONSUMER PRICES AND WOULD MAKE PRICES AT ALL LEVELS ACCURATELY REFLECT COSTS.

3. NYERGES SAID THAT THE TARGET DATE FOR ENACTMENT OF THE FISCAL REFORMS IS THE END OF 1979, TO BECOME EFFECTIVE AT THE BEGINNING OF 1980.

4. NYERGES EMPHASIZED THAT THE PROPOSED REFORM WOULD PERMIT MORE ACCURATE FOREIGN TRADE PRICING, AND SHOULD DISCOURAGE WESTERN TRADE RESTRICTIONS ON HUNGARIAN
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BUDAPE 01758 01 OF 02 021346Z

PRODUCTS BASED ON THE ARGUMENT THAT PRICES IN A COMMUNIST COUNTRY HAVE NO ECONOMIC BASIS. HE MADE THE INTERESTING COMMENT THAT USG REPRESENTATIVES COULD HELP OVERCOME OPPOSITION TO THE REFORM BY POINTING OUT THAT SUCH A TAX STRUCTURE WOULD MAKE HUNGARIAN EXPORTS LESS SUSCEPTIBLE TO DUMPING ACCUSATIONS. WHEN THE REPORTING OFFICER ASKED IF HE WAS REFERRING TO OPPOSITION IN GENEVA (AS THE PREVIOUS CONVERSATION HAD CONCERNED THE MTN NEGOTIATIONS), NYERGES RESPONDED THAT HE MEANT IN BUDAPEST.

5. COMMENT: ALTHOUGH A TAX REFORM, AS DESCRIBED BY NYERGES, IS ONLY ONE ELEMENT OF THE NECESSARY ECONOMIC ADJUSTMENTS DISCUSSED IN THE CC RESOLUTION (REFTEL), IT WOULD BY ITSELF BE A TREMENDOUS STEP TOWARDS A MORE RATIONAL ECONOMIC SYSTEM. THE EMBASSY GIVES CREDENCE TO NYERGES' DESCRIPTION OF THE FUNDAMENTAL IDEA OF THE REFORM, AND THE TIMETABLE FOR IMPLEMENTATION, AS HIS COMMENTS WERE CONSISTENT WITH PREVIOUS CONVERSATIONS WITH NATIONAL BANK AND MINISTRY OF FINANCE OFFICIALS (AND WITH STATEMENTS OF PARTY OFFICIALS QUOTED IN THE ANDELMAN ARTICLE IN THE APRIL 25 INTERNATIONAL HERALD TRIBUNE). WE ANTICIPATE SOME INTERIM STEPS TO REDUCE SUBSIDIES

(PROBABLY AT THE BEGINNING OF 1979) AND PERHAPS ALSO
EARLIER IMPLEMENTATION OF OTHER REFORM MEASURES.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BUDAPE 01758 02 OF 02 021353Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 AGRE-00 DOE-15 SOE-02 PA-01 /122 W
-----130062 021407Z /72

R 021246Z MAY 78
FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC 1354
INFO AMEMBASSY BELGRADE
AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
USMISSION USNATO
USMISSION GENEVA
AMCONSUL MUNICH

C O N F I D E N T I A L SECTION 2 OF 2 BUDAPEST 1758

6. WE ARE INTRIGUED BY NYERGES' REFERENCE TO OPPOSITION,
AND HIS INSISTENCE THAT NO FINAL DECISION ON THE TAX
REFORM WAS MADE AT THE CENTRAL COMMITTEE MEETING. WHILE
HE MAY HAVE BEEN THINKING PRIMARILY OF HUNGARY'S NEED
TO REASSURE ITS CEMA PARTNERS THAT THE PROPOSED TAX
REFORM POSES NO THREAT TO SOCIALIST MANAGEMENT OF THE
ECONOMY, CONTINUAL DOMESTIC OPPOSITION IS ALSO A DISTINCT
POSSIBILITY, WHICH COULD HELP EXPLAIN THE EXTENDED
FASCUSSION AND SOME OF THE PERSONNEL SHIFTS AT THE
MEETING. TAX REFORM WOULD BRING MAJOR CHANGES IN DOMESTIC
PRICE RELATIONSHIPS AND COULD PROVOKE CONSUMER DISCONTENT
-- ESPECIALLY IF ACCOMPANIED BY WAGE POLICY ADJUSTMENTS
TYING INCOME MORE CLOSELY TO WORK EFFICIENCY, AS
WAS ALSO CALLED FOR BY THE CC RESOLUTION. PRICE AND
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BUDAPE 01758 02 OF 02 021353Z

INCOMES POLICIES INTRODUCED AS PART OF THE NEW ECONOMIC MECHANISM IN 1968 PROVED VERY SENSITIVE POLITICALLY AND WERE SUBSEQUENTLY MODIFIED. USE OF ARTIFICIAL PRICES TO PROMOTE SOCIAL OBJECTIVES IS PERVASIVE IN THE HUNGARIAN ECONOMY -- EXTENDING TO SUCH MINOR AREAS AS HOLDING PRICES OF CLASSICAL PHONOGRAPH RECORDS 20 PERCENT BELOW POPULAR RECORDS TO ENCOURAGE THE PROPER AESTHAETIC TASTES -- AND REFORM MIGHT FACE THE OPPOSITION OF VARIOUS INTEREST GROUPS. WHILE THE CC RESOLUTION CLEARLY GAVE THE GREEN LIGHT TO ECONOMIC REFORM, THE TYPICAL HUNGARIAN PROCESS OF STUDY AND CONSULTATION IS STILL UNDERWAY AND THE EXTENT TO WHICH A FULL REFORM PROGRAM WILL BE IMPLEMENTED REMAINS TO BE SEEN. END COMMENT.
EISENSTADT

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, REPORTS, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BUDAPE01758
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780186-1118
Format: TEL
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197805104/aaaadkkc.tel
Line Count: 187
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9f4bd593-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 BUDAPEST 1714
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 19 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2524473
Secure: OPEN
Status: NATIVE
Subject: PREPARATION FOR HUNGARIAN FISCAL REFORM CONTINUES
TAGS: ECON, EEW, HU
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/9f4bd593-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014